



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON
Thursday, April 26, 2012
10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:30 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair
Mr. Kevin McCarthy (via Teleconference)
Mr. David Byers (via Teleconference)

Absent: Mr. Tom Manos, Vice-Chair

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the February 23, 2012 Minutes of the OC Meeting

Motion: Mr. David Byers moved the minutes of the February 23, 2012 OC meeting be accepted. Mr. Kevin McCarthy seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding ASRS Web Development

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, gave a brief overview of the work of the ASRS Web Steering Committee and then introduced Mr. Dave King, Assistant Director, Member Services Division, who presented the Committee with information regarding the ASRS website. He said use of the website had increased significantly over the past year, especially with navigation from the ASRS homepage to secure account pages. He also noted the number of online transactions and members educating themselves via the website continues to grow.

Mr. King then highlighted the current projects underway by the Committee including the development of mass email, the use of social media, letting employers submit ending payroll verifications online, posting member statements online, and implementing an online retirement application. He also briefly discussed upcoming initiatives.

4. Presentation, Discussion and Appropriate Action Regarding Eliminating Partial Lump Sum Payments as a Service Purchase Payment Method

Mr. Guarino introduced Ms. Lisa King, Management Analyst, who addressed the Committee regarding the possible elimination of using a Partial Lump Sum (PLS) as a service purchase payment method. Ms. King stated the current allowance of the PLS as a service purchase payment affects a small percentage of members overall and is not cost neutral to the agency. She said the Administrative Rule establishing the PLS payment structure would need to be repealed, and she presented a variety of justifications for ending the payment method. A discussion ensued regarding the removal of a benefit to ASRS members.

Motion: Mr. David Byers moved the Committee accept the staff recommendation to eliminate the Partial Lump Sum as a service purchase payment method prospectively for new service purchase requests by repealing Administrative Code R2-8-518 effective January 1, 2013, and forward its recommendation to the full ASRS Board for consideration and notify member and retiree associations of the repeal to seek input on the issue. Mr. Kevin McCarthy seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Byers departed the meeting at 11:42 a.m. Lacking the presence of a quorum, the meeting continued as informational only.

5. Presentation, Discussion and Appropriate Action Regarding Recent Overpayments

Mr. Guarino addressed the Committee regarding the recent discovery of overpayments to alternate payees on member accounts with Domestic Relations Orders (DRO). He notified Trustees of this discovery back in February. He then introduced Ms. Nancy Bennett, Chief Financial Officer, who presented information on how the ASRS had been working to minimize overpayments through legislation and process changes. She stated that in 2010, Benefits Accounting began a thorough review of DROs to find any errors, and that 4% of all DROs reviewed had errors resulting in 32 instances where overpayments occurred. Ms. Bennett said these overpayments occurred over a 19-year period. She updated the Committee on the status of the overpayments as well as the steps being taken to reduce the risk of overpayments in the future.

6. Presentation, Discussion and Appropriate Action Regarding a Recent ASRS Governance Audit

Mr. Bernard Glick, Chief Internal Auditor, addressed the Committee regarding an audit of the ASRS Agency Governance. He said there were eight findings from the audit: 1) the agency currently has a Governance program in place that adequately promotes appropriate ethics and values, ensures effective organization performance, management and accountability,

communicates risk and control information, coordinates the activities of and communicates information among the ASRS Board, management and external and internal auditors; 2) an Enterprise Risk Management Committee should act as the Agency Risk Officer, in the development and administration of the Agency Risk Assessment document; 3) the agency should consider completing a Risk Assessment Document and the Biennial Audit Plan so it can be presented to the OC and approved by the full Board at the June Board meeting; 4) the agency should consider having Board members annually sign a document that they fully understand and will abide by a Code of Ethics; 5) Board members should receive information as to what transpires in committees in which they are not members in a timely manner; 6) there is currently no designation of an ASRS Audit (Risk) Committee in the Governance Handbook; 7) require the Trustees to obtain a minimum amount of Continuing Professional Education in some outside conferences or seminars and to document attendance at these conferences; and 8) within the Board Governance Policy Handbook, include procedures or reference current state law on how to remove a Trustee who becomes a liability to the Agency.

Mr. Glick made a variety of recommendations, and Mr. Paul Matson, Director, stated the Governance Audit as well as management's and/or OC responses would also be reviewed by the ASRS Board at a later date.

7. Review of Recently Conducted Audits

- **Audit Follow Up – City of Avondale, Murphy Elementary School District**
- **Casa Grande Elementary School District**
- **Nadaburg Elementary School District**
- **P Card and Travel Card Account Audit**

Mr. Glick presented the Committee with an update on two previously conducted audits: City of Avondale (City) and Murphy Elementary School District (District). Mr. Glick stated the Internal Audit Division (IAD) has recommended the employers conduct self-audits. Both the City and the District performed self-audits for Fiscal Year 2011.

The City's self-audit found it did not report part-time employees who should have contributed, did not report dual employed employees, did not report compensation for uniforms, cell phones, internet or car allowances, and did not report compensation for Longevity pay. The City has since corrected all of the finding.

The District's self-audit found it did not report performance pay for terminated employees, did not comply with statutes ensuring retirees returning to work acknowledge in writing their intent, or with statutes regarding Health Insurance supplements, and did not report all employees who worked 20 or more hours for 20 or more weeks on all eligible compensation. The District has made progress in correcting these findings, but additional findings were discovered including unreported compensation and contributions reported for two ineligible employees.

The next audit was of Casa Grande Elementary School District. Mr. Glick stated there were four findings: 1) the District did not remit contributions for 26 employees who were engaged to work at least 20 hours per week for at least 20 weeks, did not remit contributions on all eligible compensation for three employees, and did not remit contributions for two employees who were dual employed at other ASRS employers; 2) the District remitted contributions on a number of ineligible individuals; 3) the District did not ensure that all retirees returning to work complied with the requirement they acknowledge the provisions of the statute in writing; and 4) the District did not comply with all statutes regarding ASRS health insurance supplements. Mr. Glick said

the District owed the ASRS \$9,831.

Mr. Glick then presented the audit for Nadaburg Elementary School District. He said there were three findings. First, the District engaged an early retiree to work at least 20 weeks in the fiscal year and at least 20 hours per week. Second, the District did not remit contributions for 12 employees who were engaged to work at least 20 hours per week for at least 20 weeks and did not remit contributions on all eligible compensation for two employees. Last, the District applied and remitted contributions on three employees' option to sell back accumulated leave and on two employees' lump sum payment for accumulated leave. The amount due the ASRS is \$17,663.

The final audit presented was on the Purchasing Cards and travel cards/account used at the ASRS. Mr. Glick stated there were two findings: 1) agency controls over the authorization, proper use, and payment of the cards and accounts was adequate, and 2) several clerical issues were discovered involving the forms in use and when key events in the life-cycle of an account are recorded for tracking purposes. The second finding had been corrected with the establishment of a written Standard Operating Procedure.

8. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending March 2012. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits. Mr. Glick noted various audits and reporting that had occurred in the third quarter of the fiscal year.

9. Request for Future Agenda Items

No requests were made.

10. Call to the Public

No members of the public addressed the Committee.

11. Adjournment of the OC

Mr. Steven Zeman adjourned the meeting at 12:34 p.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date